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Europe Imposes a Tariff on Chinese Solar Panels, for Less Than Expected

By JAMES KANTER and KEITH BRADSHER

BRUSSELS — The European Union's trade chief on Tuesday carried out his threat to impose tariffs on solar panels from China. But in a significant concession to Chinese lobbying and after opposition from some European leaders and industry executives, he significantly watered down the penalties.

Karel De Gucht, the bloc's trade commissioner, said the tariffs would initially be 11.8 percent — about a quarter of the amount he had been threatening to levy.

But he said the tariffs would rise to 47.6 percent in August if the Beijing government did not remedy what he has claimed is a systematic effort by Chinese companies to sell solar panels in Europe below the cost of making them, a practice known as dumping.

"The ball is in China's court," Mr. De Gucht said in a Brussels news conference Tuesday, referring to negotiations expected over the next two months. The period of the lower tariff "is a window of opportunity of 60 days," he said, adding that windows "can also shut."

As recently as last week, Mr. De Gucht had warned he could impose the much higher duties to defend the credibility of European Union trade rules. But there had been mounting pressure on him to back off.

Prime Minister Li Keqiang of China bypassed Mr. De Gucht during a visit to Germany last week and persuaded Chancellor Angela Merkel to call for further negotiations. China is a big export market for many German products, and Ms. Merkel is not eager to set off a Chinese-European trade war.

On Monday evening, Mr. Li went over Mr. De Gucht's head, in a phone conversation with the European Commission president, José Manuel Barroso.

Mr. Li told Mr. Barroso that China was ready to retaliate if the European Union took action. Xinhua, the official Chinese news agency, said Mr. Li had warned Mr. Barroso that "there would be no winners in a trade war."

Solar panels represent more than 6 percent of China's exports to the Continent, making them one of the largest Chinese exports to the European Union. In 2011, Chinese exports of panels and their main components to the European Union were worth about 21 billion euros (\$27.4 billion).

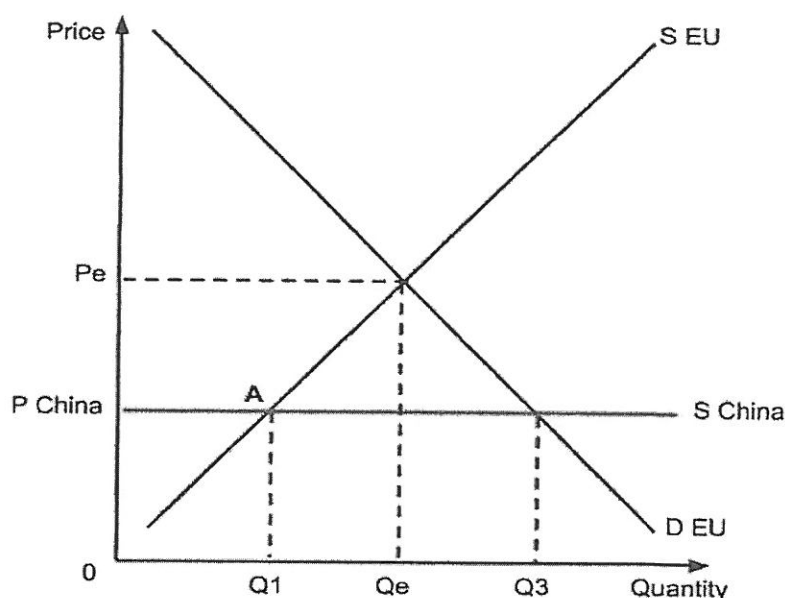
"Our action today is an emergency measure to give life saving oxygen to a business sector in Europe that is suffering badly from this dumping," Mr. De Gucht said.

James Kanter reported from Brussels, and Keith Bradsher from Hong Kong.

This article examines a tariff, or a tax levied on foreign imports to reduce the amount of foreign goods coming in to a country, imposed by the European Union on Chinese solar panels. The EU has been suffering from the cheap Chinese solar panels that has been sold in Europe for a price below the market, a practice known as dumping. To counter this, the EU is threatening to introduce a tariff to mitigate the negative effects the dumping is bringing to its domestic industries.

Figure 1:

Effects of "Dumping" of Solar Panels by China on the EU

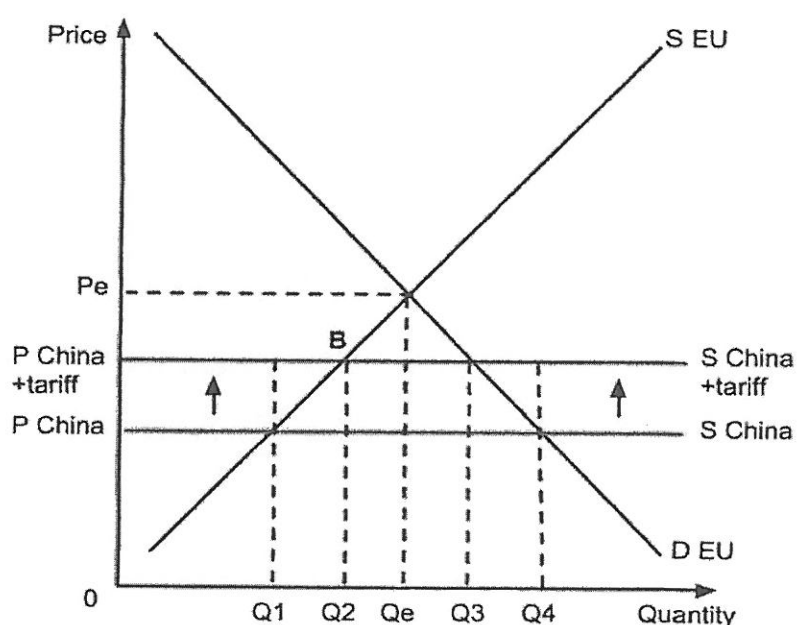


The graph above shows the concept of dumping that is mentioned in the article. The price of solar panels imported by China into the EU is represented by the line P_{China} . S_{China} is represented as a flat curve, because the Chinese solar panels are produced below the cost of production. It is clear that P_{China} is significantly lower than P_e , which is the market price of solar panels in the EU, in which domestic producers in the union produce. Due to this gap, the domestic firms who have been producing from 0 to Q_e can now only produce until Q_1 , since the domestic supply of solar panels in the EU (S_{EU}), meets the lower price set by the Chinese at point A. In comparison, the Chinese will gain a large share in the EU market, since the lower price encourages domestic consumers to buy Chinese solar panels. This has a potential of reducing the share and revenue of domestic producers in the EU.

If dumping by China on the EU market continues, it is highly likely that the loss of revenue in domestic industries may lead to major issues such as unemployment. In order to alleviate this effect, the EU has decided to put tariffs on the Chinese solar panels, as mentioned in the article, "...an emergency measure to give life saving oxygen to a business sector in Europe that is suffering badly from this dumping." Tariffs are a form of protectionism, which are policies imposed by the government to protect domestic industries from foreign competition, and is likely to bring notable consequences to both the EU and China.

Figure 2:

Effects of a Tariff by the EU on Chinese Solar Panels



The graph above represents the effects of the tariff that was imposed by the EU on China for solar panels. With the effect of the tariff, the price of Chinese solar panels in the EU is now higher, represented by the line $P_{China} + \text{tariff}$. At this price which is closer to P_e , the domestic industries in the EU may now produce from 0 to Q_2 since the domestic supply curve S_{EU} meets the price at point B, which is a significant increase from Figure 1. Due to the tariff, Chinese shares in the EU is reduced, and the potential negative effects on domestic industries as mentioned in the article may be reduced.

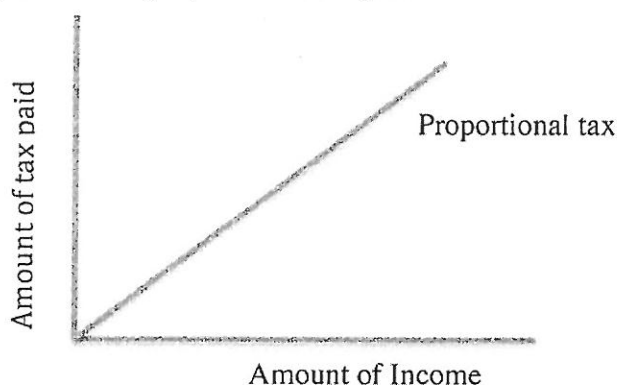
However, another concept that the article examines is the possibility of a trade war. A trade war is a term used when countries try to damage each other's trade by restrictions such as protectionism. This article explains the reasons for EU's actions, but also questions them, especially for the possibility that the tariffs may be raised to 47.6% from 11.8%. If the P China+tariff curve were to be even higher in Figure 2, it is likely that the Chinese government will dislike the tremendous loss in exports, and retaliate against EU's actions.

Overall, the effects of this tariff will likely be advantageous on the short run for the EU, since the Chinese share in EU's solar panel market is reduced. However, on the long run, the Chinese government may find the reduced exports to the EU to be damaging, quoting from the article that solar panels account for more than 6% of Chinese exports to the EU. The Chinese government will likely retaliate to this tariff, especially if the tariff were to be further raised. This retaliation may lead to a potential trade war on the long run, which will be a disadvantage for both sides.

The solution discussed in the article of EU using a tariff on the dumping of solar panels from China may be effective to a certain extent, in that a minor tariff may protect the solar panel industries in the EU from Chinese dumping. However it would not be the best solution if the objective was to stop the Chinese dumping, since there is a strong possibility of a trade war which may have an even worse effect on the EU economically.

depletion in resources may not be entirely add up to the revenue made from trading with the U.S., and thus is a major drawback. To resolve Canada's issues from the trade union, Canada can enforce and sell tradable permits to the U.S. so that the environmental effects are not as extreme, or determine the barriers to trade they will impose on the imports.

Another limitation, is that even though the tax was lower than before the trade union, the taxes are still high for those who have to work for a salary that is less, and therefore, would not be able to afford health care, pensions, etc. Perhaps the best method to resolve this problem if Canada chooses to continue trading with U.S. would be to implement the proportional tax system.



A proportional tax is when the percentage paid in tax increases as income increases. Therefore, those with the ability to pay the most tax would pay more tax, while those who do not earn much (which the article suggests would be the case for Canada) would not have the burden of paying as much. While this may not motivate those who are wealthy as much for work harder, (and wouldn't result in only the elite winning as stated in the article) it would create an incentive advantage those who earn less, which would lead to an increase in production. And due to this fiscal tax policy, the collected tax can be spent not only on public benefits and utility, but also on education, which the source mentioned could not be afforded.

Therefore, while the main action taking place is the free trade agreement, as a result other events such as depletion in Canada's natural resources, and having to adjusting the tax policies to suit those who are unemployed may be the result.

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